FINANCIAL STATEMENTS

JUNE 30, 2008

HESPERIA PUBLIC SCHOOLS

LIST OF PRINCIPAL INDIVIDUALS

JUNE 30, 2008

Board of Education

Karen Carter President

Mike Anderson Vice President

Dr. Jeffrey Thome Secretary

Patricia Budde (Appointed by Board) Treasurer

Todd Jacobs Board Member

Jim Lavin Board Member

Ken Muckey Board Member

Sharron Tozer Board Member

Management

Dean Havelka Superintendent

Patricia Budde Business Manager

Karl L. Drake, PC Auditor

Thrun Law Firm Attorney

Clark Hill PLC Attorney

HESPERIA PUBLIC SCHOOLS

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Karl L. Drake, P.C.

Certified Public Accountant

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INDEPENDENT AUDITOR'S REPORT

Board of Education Hesperia Community Schools Hesperia, Michigan 49421

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 2008, which collectively comprise the School District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Hesperia Community School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with United States generally accepted accounting principles.

The administration's discussion and analysis and budgetary comparison information on pages 3 through 10 and pages 30 through 32 are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Board of Education Hesperia Community Schools

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Hesperia Community School's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is not a required part of the general purpose financial statements. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Karl L. Drake, P.C.

Certified Public Accountant

Karl Z Denle

August 21, 2008

Management's Discussion and Analysis

This section of Hesperia Community Schools' annual financial report presents discussion and analysis of the School District's financial performance during the year ended June 30, 2008. It is best read in conjunction with the School District's financial statements, which immediately follow this section.

Using This Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Hesperia Community Schools financially as a whole. The *District-wide Financial Statements* provide information about the activities of the entire School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The fund financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant funds - the General Fund and Food Service Fund, with all other funds presented in one column as non-major funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Management's Discussion and Analysis (MD&A) (Required Supplemental Information)

Basic Financial Statements

District-wide Financial Statements

Fund Financial Statements

Notes to the Basic Financial Statements

Budgetary Information for the General Fund and Food Service Fund (Required Supplemental Information)

Other Supplemental Information

Federal Financial Assistance

Reporting The School District As A Whole - District-Wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps answer this question. These statements are prepared to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenue and expenses is the School District's operating results. However, the School District's goal is to provide services to students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, supporting services, community services, athletics, child-care, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Reporting The School District's Most Significant Funds - Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes funds as needed to help it control and manage money for particular purposes or to show that it's meeting legal responsibilities for using certain taxes, grants, and other money. The governmental funds of the School District use the following accounting approach:

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing money inflows and outflow and the balances remaining at year end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. The relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds is described in a reconciliation.

Management's Discussion and Analysis

Reporting The School District's Fiduciary Responsibilities - The School District As Trustee

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in separate statements of fiduciary net assets. These activities are excluded from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District As A Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table I provides a summary of the School District's net assets as of June 30, 2008 and 2007:

TABLE I	Governmental Activities (In Millions)		
	2008	2007	
ASSETS	2000	2007	
Current and other assets Capital assets - Net of accumulated depreciation	\$ 2.4 6.8	\$ 1.9 7.1	
TOTAL ASSETS	9.2	9.0	
LIABILITIES			
Current liabilities Long-term liabilities	2.2 6.6	2.1 7.4	
TOTAL LIABILITIES	8.8	9.5	
NET ASSETS			
Invested in property and equipment - Net of related debt	0.1	-0.4	
Restricted	0.1	0.2	
Unrestricted	0.2	-0.3	
TOTAL NET ASSETS	\$ 0.4	\$ -0.5	

The above analysis focuses on the net assets (see Table I). The change in net assets (see Table 2) of the School District's governmental activities is discussed below. The School District's net assets were \$0.4 million at June 30, 2008. Capital assets, net of related debt totaling \$0.1 million compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accrued interest on capital appreciation bonds, used to finance the

acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets \$0.2 was unrestricted.

The balance in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the statement of activities (see Table 2), which shows the changes in net assets for fiscal years 2008 and 2007.

TABLE 2		Governmental Activities (In Millions)		
		2008	,	2007
REVENUE				
Program Revenue				
Charges for services	\$	0.4	\$	0.3
Grants and categoricals		1.9		1.9
General Revenue				
Property taxes		1.7		1.6
State foundation allowance		7.3		6.8
Other		0.1		0.0
TOTAL REVENUE	\$_	11.4	\$	10.6
FUNCTION/PROGRAM EXPENSES				
Instruction	\$	6.2	\$	6.3
Support Services		2.8		2.9
Food Services		0.5		0.4
Athletics		0.2		0.2
Interest on long-term debt		0.3		0.4
Depreciation (unallocated)		0.4		0.4
Community Service		0.1		0.1
TOTAL FUNCTION/PROGRAM EXPENSES		10.5		10.7
INCREASE < DECREASE > IN NET ASSETS	\$_	0.9	\$	-0.1

Management's Discussion and Analysis

As reported in the statement of activities, the cost of all governmental activities this year was \$10.5 million. Certain activities were partially funded from those who benefited from the programs (\$0.4 million) or by other governments and organizations that subsidized certain programs with grants and categoricals (\$1.9 million). The remaining "public benefit" portion of the governmental activities was paid with \$1.7 million in taxes, \$7.3 million in State Foundation Allowance, and with other revenues such as interest and general entitlements.

The School District experienced an increase in net assets of \$0.9 million. The key reason for the change in net assets was the control of expenditures. The increase in net assets differs from the change in fund balance and reconciliation appears on page 15.

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of School District operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for certain purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$0.8 million, which is an increase of \$0.3 million from last year. The primary reason for the increase was controlling expenditures. The General Fund, the principal operating fund, saw the fund balance increase \$357,429 to \$648,757.

- The Special Revenue Funds remained stable from the prior year, showing a net decrease of approximately \$16,440.
- Combined, the Debt Service Funds showed a fund balance decrease of approximately \$28,842. Millage rates are determined annually to ensure that the School District accumulates sufficient resources to pay annual bond issue-related debt service. Debt Service Funds fund balances are reserved since they can only be used to pay debt service obligations.

General Fund Budgetary Highlights

Over the course of the year, the School District amends its budget as it attempts to deal with changes in revenue and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in the required supplemental information of these financial statements. Changes to the General Fund original budget were as follows:

- Budgeted revenue was increased in total by \$1,449,855, which is the result of changes to the various revenue accounts. The main differences are in state aid and federal grant amounts. Many of the grant amounts are not known when the original budget is adopted, therefore need to be amended after those amounts are disclosed. The District also saw an increase of approximately 44 students, which resulted in an increase in state aid from the original budget amount. Actual revenue received compared to final budget amended increased by \$22,017. This is a result of the utilization of deferred revenue and receiving less in federal grants due to under-spending of federal grant monies prior to year-end.
- Budgeted expenditures comparing original budget to final amended budget were increased \$1,431,000 to cover additional grants received after the beginning of the school year and to budget for carryover amounts that were not known at the time the original budget was adopted. The District also added some instructional staff and made major textbook purchases. Actual expenditures compared to the final amended budget decreased by \$101, 067. This decrease resulted from a net of the following summarized items: grants not being totally spent and general under-spending.

When reviewing the fund balance, the original budget estimated the fund balance to be \$525,673 and the actual fund balance is \$648,757. This represents a variance of \$123,084 between the budgeted amount of fund balance and the actual fund balance.

Management's Discussion and Analysis

Capital Asset And Debt Administration

Capital Asset

At June 30, 2008, the School District had \$6.8 million invested in a broad range of capital assets, including land, buildings, furniture, and equipment. This amount represents a net decrease (including additions and disposals) of approximately \$254,935 or 4 percent, from last year.

	2008	2007
Land	\$	\$
Buildings	8,734,612	8,726,417
Buses and Other Vehicles	1,141,648	1,141,648
Furniture and Equipment	3,707,884	3,637,248
Total Capital Assets	13,584,144	13,505,313
Less Accumulated Depreciation	6,781,434	6,447,668
Net Capital Assets	\$ 6,802,710	\$ 7,057,645

The additions for this year included general equipment purchases. No debt was issued for these additions.

Debt

At the end of this year, the School District had \$6.7 million in bonds and notes outstanding versus \$7.3 million in the previous year - a decrease of 9 percent. Those bonds and notes consisted of the following:

	2008	2007
General Obligation Bonds Notes Payable	\$ 6,515,392 198,466	\$ 7,083,865 265,608
Total	\$ 6,713,858	\$ 7,349,473

The School District's General Obligation Bond rating continues to be equivalent to the State's credit rating. The State limits the amount of general obligation debt that schools can issue to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding unqualified general obligation debt of \$6.7 million is below the statutorily imposed limit.

Other obligations include employee-compensated absences. More detailed information about long-term liabilities is presented in the notes to the financial statements.

Economic Factors And Next Year's Budgets And Rates

The elected officials and administration considered many factors when setting the School District's 2008-09 fiscal year budget. One of the most important factors affecting the budget is the student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2008-09 fiscal year is 25 percent of the February 2008 student count and 75 percent of the September 2008 student count. The 2008-09 fiscal year budget was adopted in June 2008, based on an estimate of students that will be enrolled in September 2008. Approximately 75 to 80 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2008-09 school year, we anticipate that the fall student count will be higher than the estimates used in creating the 2008-09 fiscal year budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Because the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenue to fund its appropriation to school districts. The District has estimated a \$100 increase to the 2008-09 foundation allowance and used an estimate of 1120 students. Retirement has been decreased from 16.72% to 16.54% beginning in October of 2008. We are currently in negotiations with both of the union groups as the contracts have expired. (June 2008 for the HESP Support Union and August 2008 for the HEA Teachers Union).

The budget situation will continue to be monitored very closely in the 2008-09 school year. The State's revenue picture, as well as the Federal Budget picture, will have a dramatic effect on the budget if the revenue is not available as projected in the State Aid Act, and budget estimates for federal revenue come in less than estimated.

Contacting The School District's Financial Management

This financial report is designed to provide the School District's citizens, taxpayers, customers, investors and creditors of the Hesperia Community School with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Business Manager, 96 S. Division Street, Hesperia, Michigan 49421.

District-Wide Financial Statements

STATEMENT OF NET ASSETS

JUNE 30, 2008

ASSETS	Governmental Activities
Current Assets	¢ (40,902
Cash and Cash Equivalents Due From Other Governmental Units	\$ 649,892
Accounts Receivable	1,659,204
Inventories	66,709
Prepaid Expenditures	4,157
Total Current Assets	2,379,962
Non-Current Assets	
Capital Assets	13,584,144
Less: Accumulated Depreciation	-6,781,434
Total Non-Current Assets	6,802,710
TOTAL ASSETS	\$ 9,182,672
TOTAL ASSETS	9 7,102,072
LIABILITIES AND NET ASSETS	
Current Liabilities	
Accounts Payable	\$ 398,675
Accrued Salaries and Expenses	774,522
Accrued Interest	90,265
Due to Other Governments	
Deferred Revenue	366,573
Bonds and Notes Payable, Due within One Year	586,285
Total Current Liabilities	2,216,320
Non-Current Liabilities	c 001 770
Bonds and Notes Payable	6,321,573
Compensated Absences and Severance Pay Total Non-Current Liabilities	<u>250,000</u>
	6,571,573
TOTAL LIABILITIES	8,787,893
NET ASSETS	
Invested in Capital Assets, Net of Related Debt	88,852
Restricted for Debt Service	141,911
Unrestricted	<u>164,016</u>
TOTAL NET ASSETS	394,779
TOTAL LIABILITIES AND NET ASSETS	\$ 9,182,672

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

		Program Revenues		Governmental Activities
	Expenses	Charges For Services	Operating Grants	Net < <i>Expense</i> > Revenue and Changes in Net Assets
FUNCTIONS/PROGRAMS				
Governmental Activities Instruction Support Services Food Services Athletics Community Services Interest on Long-Term Debt Depreciation (Unallocated) Total Governmental Activities	\$ 6,179,013 2,753,320 507,211 223,155 71,825 327,740 392,711 \$ 10,454,975	\$ 223,521 151,855 21,880 4,829 \$ 402,085	\$ 1,502,620 7,814 349,992 86,444 \$ 1,946,870	\$ -4,676,393 -2,521,985 -5,364 -201,275 19,448 -327,740 -392,711 -8,106,020
General Revenue Taxes Property Taxes, Levied for General Property Taxes, Levied for Debt Se State of Michigan Aid, Unrestricted	ervice			788,794 875,738 7,257,009
Interest Earnings				27,305
Other				49,977
Total General Revenue				8,998,823
CHANGE IN NET ASSETS				892,803
NET ASSETS - BEGINNING OF YEAR	R			-498,024
NET ASSETS - END OF YEAR				\$ 394,779

Fund Financial Statements

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2008

JUNE	2 30, 2008			
	<u>General</u>	Food Service	Other Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and Investments Accounts Receivable	\$ 500,596	\$ 6,098	\$ 143,198 	\$ 649,892
Due from Other Governmental Units	1,642,172	17,032		1,659,204
Due from Other Funds	1,287	26,648		27,935
Inventories	63,868	2,841		66,709
Prepaid Expenditures	4,157			4,157
TOTAL ASSETS	\$ 2,212,080	\$ 52,619	\$ 143,198	\$ 2,407,897
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts Payable	\$ 395,580	\$ 3,095	\$	\$ 398,675
Accrued Salaries and Withholdings	774,522			774,522
Due to Other Funds	26,648		1,287	27,935
Due to Other Governments Deferred Revenue	 266 57 2			366,573
TOTAL LIABILITIES	366,573 1,563,323	3,095	1,287	1,567,705
	1,0 00,0 20	5,070	1,20,	1,007,700
FUND BALANCES				
Reserved for Inventories	63,868	2,841	141.011	66,709
Reserved for Debt Service Unreserved, Designated	33,269		141,911	141,911 33,269
Unreserved and Undesignated	551,620			551,620
Unreserved and Undesignated, Food Services		46,683		46,683
Unreserved and Undesignated, Athletics				
TOTAL FUND BALANCES	648,757	49,524	141,911	840,192
TOTAL LIABILITIES AND FUND BALANCES	\$ 2,212,080	\$ 52,619	\$ 143,198	\$ 2,407,897
TOTAL GOVERNMENTAL FUND BALANCES				\$ 840,192
Amounts reported for governmental activities in the statement	at of net assets are	different beca	nuse:	
Capital assets used in governmental activities are not finance				
Cost of the Capital Assets				\$ 13,584,144
Accumulated Depreciation				<u>-6,781,434</u>
Long town Liabilities are not due and nevable in the	namiad and ans are	ronorted in 41-	o fund	6,802,710
Long-term Liabilities are not due and payable in the current p Bonds and Notes Payable	benoù and are not	reported in th	ic iuliu.	-6,713,858
Compensated absences				-444,000
Accrued interest is not included as a liability in governmenta	l funds.			-90,265
NET ASSETS OF GOVERNMENTAL ACTIVITIES				\$ 394,779

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2008

REVENUE	General	Food Service	Other Non-major Governmental Funds	Totals
Local Sources	\$ 1,176,767	\$ 152,283	\$ 901,293	\$ 2,230,343
State Sources	8,129,916	30,107	Ψ 701,273	8,160,023
Federal Sources	637,527	319,885		957,412
Miscellaneous				
TOTAL REVENUE	9,944,210	502,275	901,293	11,347,778
EXPENDITURES				
Current				
Instruction	6,179,013		223,155	6,402,168
Supporting Services	3,067,527	507,217		3,574,744
Community Services	71,825			71,825
Debt Service	67,141	11 400	908,255	975,396
Capital Outlay		11,498		11,498
TOTAL EXPENDITURES	9,385,506	518,715	1,131,410	11,035,631
EXCESS OF REVENUE OVER < UNDER > EXPENDITURES	558,704	-16,440	-230,117	312,147
OTHER FINANCING SOURCES < USES>				
Loan Proceeds				
Operating Transfers In			201,275	201,275
Operating Transfers Out	-201,275			-201,275
TOTAL OTHER FINANCING SOURCES < USES>	-201,275		201,275	
NET CHANGE IN FUND BALANCES	357,429	-16,440	-28,842	312,147
FUND BALANCES - BEGINNING OF YEAR	291,328	65,964	170,753	528,045
FUND BALANCES - END OF YEAR	\$ 648,757	\$ 49,524	\$ 141,911	\$ 840,192

Fund Financial Statements

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2008

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS		\$ 312,147
Amounts reported for governmental activities in the statement of activities are different because:		
- Change in compensated absences are not reflected in the government funds report		187,935
 Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation. 		
Depreciation Expense	-392,711	
Capital Outlay	137,776	-254,935
 Accrued interest is recorded in the statement of activities when incurred; it is not reported in governmental funds until paid 		12,041
- Loan proceeds are recorded as an other financing source in governmental funds. These are recorded as a liability and not included in the statement of activities.		
- Repayments of bond and loan principal are expenditures in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		635,615
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		\$ 892,803

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2008

	Agency Fund- Student Activities	
ASSETS		
Cash and Cash Equivalents Accounts Receivable Due from Other Funds	\$	59,751
TOTAL ASSETS	\$	59,751
LIABILITIES		
Due to Other Funds Due to Others Due to Student Groups	\$	174 59,577
TOTAL LIABILITIES	\$	59,751

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the School District conform to United States generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

A. REPORTING ENTITY: Hesperia Community School is located in Newaygo and Oceana Counties in Michigan. The School District is a K through 12 system. The School District is governed by a School Board consisting of seven Board members, all of whom are elected by School District residents.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

- 1. appoints a voting majority of the organization's board, and has the ability to impose its will on the organization; or
- 2. there is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on the above criteria, no additional organizations or entities are included in these financial statements.

B. BASIS OF PRESENTATION

District-Wide and Fund Financial Statements

The district-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All the district's government wide activities are considered governmental activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenue includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments, and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

District-Wide Statements - The district-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants, categorical aid and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements.

Fund Based Statements - Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and severance pay, are recorded only when payment is due.

Property taxes, unrestricted state aid, intergovernmental grants and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

The fiduciary fund statement is also reported using the economic resources measurement focus and the accrual basis of accounting.

GOVERNMENTAL FUNDS

<u>General Fund</u> - The General Fund is the general operating fund of the School District. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than Building and Site Funds) that are legally restricted to expenditures for specified purposes. The Special Revenue Funds maintained by the School District are the Food Service Fund and Athletic Fund.

Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

GOVERNMENTAL FUNDS - CONTINUED

<u>Debt Service Funds</u> - These funds are used to account for the accumulation of resources for, and for the payment of, general long-term debt principal, interest, and related costs. Debt Service Funds maintained by the School District are to retire outstanding 1999 and Durant bonded indebtedness.

<u>Capital Project Funds</u> - Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities.

FIDUCIARY FUNDS

Agency Fund - The Agency Fund is used to account for assets held by the School as an agent for student clubs and organizations. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve measurement of results of operations.

- **C. BUDGETS AND BUDGETARY ACCOUNTING:** The General Fund, Special Revenue Funds, and Debt Retirement Funds are under formal budgetary control. Budgets are adopted on the modified accrual basis of accounting. Amendments are by action of the Board.
- P.A. 621 of 1978, Section 18 (1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the School's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the School for these budgetary funds were adopted at the functional level.

- **D. PROPERTY TAXES:** Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied and payable on December 1. The District collects its taxes through the local township treasurers. Settlement of the delinquent real property taxes is funded by Newaygo and Oceana Counties. The District recognizes property tax revenue in the year of levy except for delinquent personal property taxes, which are recorded as revenue when received.
- **E. INVENTORIES:** Inventories are accounted for at cost on a first-in, first-out basis of accounting with the exception of USDA Commodities that are recorded at market value. Inventory consists of expendable supplies held for consumption and USDA Commodities.
- **F. CASH EQUIVALENTS:** The School District considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.
- **G. FINANCIAL INSTRUMENTS:** The School does not require collateral to support financial instruments subject to credit risk.

- **H. SHORT-TERM INTERFUND RECEIVABLES AND PAYABLES:** During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.
- **I. FUND EQUITY:** Reservations of fund balance represent these portions of fund equity not appropriable for expenditure or legally segregated for a specific future use.
- **J. CAPITAL ASSETS:** Capital assets, which include land, buildings, equipment, and vehicles are reported in the applicable governmental column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of 1 year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Costs of normal repair and maintenance that do not add to the value materially extended asset life are not capitalized. The school district does not have infrastructure type assets.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Buildings and additions	20-50 years
Buses and other vehicles	5-10 years
Furniture and other equipment	5-20 years

K. LONG-TERM OBLIGATIONS: In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period.

Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Notes to Financial Statements

- **L. TOTAL COLUMNS ON COMBINED STATEMENTS:** Total columns on the Combined Statements are captioned (Memo Only) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund eliminations have not been made in the aggregation of this data.
- M. STATE CATEGORICAL REVENUE: The School District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received, which are not expended by the close of the fiscal year, are recorded as deferred revenue.
- **N. RISK MANAGEMENT:** The School District is exposed to various risks of loss to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the School District carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.
- **O. ESTIMATES:** The preparation of financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

- **A. LEGAL OR CONTRACTUAL PROVISIONS FOR DEPOSITS AND INVESTMENTS:** The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the District, by resolution, may authorize investment of surplus funds as follows:
 - 1. In bonds and other direct obligations of the United States or an agency or instrumentality of the United States.
 - 2. In certificates of deposit, savings accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Association; but only if the bank, savings and loan association, or credit union complies with Subsection (2).

- 3. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- 4. In United States government or Federal agency obligation repurchase agreements.
- 5. In bankers' acceptances of United States banks.
- 6. In mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The School District is in compliance with State law regarding their cash deposits.

B. TYPES OF DEPOSITS AND INVESTMENTS: The School District maintains all of its cash deposits in four financial institutions. At June 30, 2008, the book value of the School District's deposits was \$709,643 and the bank balance was \$2,759,808. Of the bank balance, \$201,473 was covered by federal depository insurance and \$2,558,335 was uninsured and uncollateralized.

CASH EQUIVALENTS: There is \$3,460 in the Michigan Liquid Asset Fund Plus Account. This cash equivalent is not categorized as to risk because it is not evidenced by securities that the School owns specifically or can be identified with securities within the liquid asset account.

<u>Carrying Value</u>	Market Value
\$ 3,460	\$ 3,460
Total Cash:	
Petty Cash	\$ 100
Deposits in Financial Institution	s 706,083
Deposits in MLAF Account	3,460
	\$ 709,643

NOTE 3 - INVENTORY

The \$63,868 shown as inventory in the General Fund represents the value of supplies, bus parts and fuel on hand at June 30, 2008.

There is \$2,841 of inventory in the Special Revenue Fund - Food Service.

Total inventory of both funds at June 30, 2008, was \$66,709.

Notes to Financial Statements

NOTE 4 - DUE FROM OTHER GOVERNMENTAL UNITS

The Due from Other Governmental Units at June 30, 2008, is comprised of the following:

State of Michigan	- State Aid	\$ 1,464,032
	- Title I	104,751
	- Title II-A	11,701
	- Title II-D	567
	- Adult Basic Education	47,000
	- Title I School-wide Planning	1,500
	- Title VI	9,239
	- Fresh Fruits and Vegetables	17,032
Newaygo RESA		2,957
Other		425
Total Due From O	ther Governmental Units	\$ 1,659,204

NOTE 5 - DUE TO/FROM OTHER FUNDS

Due to/due from at June 30, 2008, consisted of the following:

Due From:		Due To:	
General 1999 Debt	\$ 26,648 1,287	Food Service General	\$ 26,648 1,287
	\$ 27,935		\$ 27,935

NOTE 6 - PREPAID EXPENDITURES

At June 30, 2008, prepaid expenditures consisted of the following:

Retirement	\$
Insurance	 4,157
	\$ 4,157

NOTE 7 - CAPITAL ASSETS

Capital asset activity of the school district's Governmental activities was as follows:

	Balance July 1, 2007	Additions	Disposals and Adjustments	Balance June 30, 2008
Assets not being depreciated: Land	\$	\$	\$	\$
Capital assets being depreciated: Building and building improvements Buses and other vehicles Furniture and equipment	8,726,417 1,141,648 3,637,248	8,195 129,581	 58,945	8,734,612 1,141,648 3,707,884
Subtotal	13,505,313	137,776	58,945	13,584,144
Accumulated depreciation: Building and building improvements Buses and other vehicles Furniture and equipment	2,628,406 786,479 3,032,783	164,307 90,327 138,077	 58,945	2,792,713 876,806 3,111,915
Subtotal	6,447,668	392,711	58,945	6,781,434
Net capital assets being depreciated	7,057,645	-254,935		6,802,710
Net capital assets	\$ 7,057,645	\$ -254,935	\$	\$ 6,802,710

Depreciation expense was not charged to activities as the District considers its assets to impact multiple activities and allocation is not practical.

NOTE 8 - ACCRUED SALARIES AND FRINGE BENEFITS

Salaries payable at June 30, 2008, of \$482,305 represents the unpaid portion of teacher contracts for the 2007-08 school year. On these salaries there are also fringe benefits payable at year-end totaling \$292,217.

NOTE 9 - DUE TO OTHER GOVERNMENTS

The District had no Due to Other Governmental Units at June 30, 2008.

Notes to Financial Statements

NOTE 10 - LONG-TERM DEBT

Long-Term Debt is comprised of bonded debt, bus notes and other notes payable. During the year ended June 30, 2008, long-term debt changed as follows:

	Balance 7/1/07	Additional Debt	2007-08 Payments	Balance 6/30/08
Durant Building Project Durant Bond Issue 1999 Bond Issue Bus and Technology Notes	\$ 32,873 52,941 5,910,000 232,735	\$ 	\$ 12,647 300,000 54,495	\$ 20,226 52,941 5,610,000 178,240
School Bond Loan	1,120,924		268,473	852,451
	7,349,473		635,615	6,713,858
Teacher Buy-Outs	590,000		190,000	400,000
Severance Pay	2,100	70		2,170
Compensated Absences	39,835	1,995		41,830
	\$ 7,981,408	\$ 2,065	\$ 825,615	\$ 7,157,858

Amounts needed over the next five years are for debt principal payments are as follows:

	Ourant Bonds	R	1999 efunding Bonds]	chool Bond Loan	Tec	us and hnology Notes	(Other	I	Durant Building Project		Total
2008-09	\$ 7,189	\$	315,000	\$		\$	56,884	\$	194,000	\$	13,212	\$	586,285
2009-10	7,531		335,000				59,381		150,000		7,014		558,926
2010-11	7,889		345,000				61,975		100,000				514,864
2011-12	8,264		345,000										353,264
2012-13	22,068		340,000										362,068
2013- Maturity			3,930,000		852,451							4	4,782,451
-	\$ 52,941	\$	5,610,000	\$	852,451	\$	178,240	\$ 4	444,000	\$	20,226	\$	7,157,858

A. 1999 REFUNDING BONDS: The bonds are dated February 3, 1999, with principal due each May 1 and interest due each May 1 and November 1, beginning November 1, 1999, and ending May 1, 2025. Interest rates vary from 3.3% to 5.0%. The proceeds from these bonds were used to refund 1995 School Building and Site Bonds. The remaining bonds payable at June 30, 2008, were \$5,610,000.

B. BUS AND TECHNOLOGY INSTALLMENT PURCHASE AGREEMENTS: The School District has the following notes resulting from the purchase of buses and technology.

- 1. This note was executed February 15, 2006 for the purchase of 4 buses. The note requires 5 annual payments of \$57,598.43, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 4.44%. The original note balance was \$254,844, and the balance due on June 30, 2008 was \$158,515.
- 2. This note was executed February 15, 2006 for the purchase of computer technology. The note requires 5 annual payments of \$7,109.61, which include principal and interest, beginning December 20, 2006 and concluding December 20, 2010. Interest is calculated at 3.98%. The original note balance was \$32,248, and the balance due on June 30, 2008 was \$19,725.
- **C. COMPENSATED ABSENCES:** Under contracts negotiated with employee groups, individual employees have a vested right to receive payments for unused vacation leave amounts. A liability of \$41,830 unused vacation leave exists at June 30, 2008.
- **D. SCHOOL BOND LOANS:** The School District approved borrowing from the School Bond Loan Fund to help pay the 1995 School Building and Site bond loan payments until the SEV increases enough to provide adequate tax revenue to pay the bond payments. The loans are dated March 18, 1996. Repayment of the debt started in the fiscal year ended June 30, 2008. Interest is calculated at a variable rate, currently 4.75%. Total amount outstanding at June 30, 2008, was \$852,451.
- **E. DURANT BONDS:** The bonds are dated November 24, 1998, with principal and interest due annually on May 15 beginning in 1999 and ending in 2013. The proceeds from these bonds were used for classroom construction. Interest is at 4.761353%. Bond payments are funded by state-aid revenue. The balance due at June 30, 2008 was \$52,941.
- **F. TEACHER BUY-OUT:** The School District approved the buy-out of eight staff people during the fiscal year as a retirement incentive. The maximum to be paid is \$50,000 for each person, over a four-year period. Total buy-outs payable at June 30, 2008, was \$400,000.
- **G. SEVERANCE PAY:** After a teacher has 20 years of service with the School District, they are eligible for severance pay upon retirement. The pay is calculated at \$35 for each year of service. Total severance pay payable at June 30, 2008, was \$2,170.
- **H. DURANT BUILDING PROJECT:** The School District borrowed \$110,000 for the completion of classroom construction on January 28, 2000. Under the terms of this agreement twenty semi-annual payments of principal and interest will be made on June 30 and December 31 through December 31, 2009. Payments are \$7,096.94 and include interest at 5.2%. The balance due at June 30, 2008, was \$20,226.

Notes to Financial Statements

NOTE 11 - DEFINED BENEFIT PENSION PLAN

The School District participates in the Michigan Public School Employees' Retirement System (MPSERS), which is a multiple-employer public employee retirement system. MPSERS maintains two plans: the Basic Plan and a Member Investment Plan (MIP). The retirement statute requires that the School District contribute 14.56% of the aggregate annual compensation paid to all employees who are members of the Retirement System. Effective October 1, 1996, the rate increased to 15.17%, and has changed annually since then. For the year ending June 30, 2008, the rate was 16.72%.

Members joining MIP prior to January 1, 1990, contribute at a fixed rate of 3.9% of gross wages. Members joining MIP January 1, 1990, or later contribute at the following graduated permanently fixed ate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000. After January 1, 1990, membership in MIP is mandatory.

All benefits vest after 10 years of service. Basic Plan members may retire at age 55 with 30 years of credited service, or at age 50 with 10 or more years of credited service. A Member Investment Plan (MIP) member may retire at any age with 30 years of credited service or at age 60 with 5 years of service. Both Basic and MIP Plan members may retire at age 55 with 15 years of service and receive reduced early retirement benefits. The system also provides non- duty disability benefits after 10 years of service for MIP members and 15 years of service for basic plan members. The service provision is waived for duty disability and duty death benefits. Benefits are paid monthly over the member's or survivor's lifetime and are equal to 1.5% of the member's final average compensation times the member's years of credited service. The final average compensation period for basic members is 60 consecutive months and for MIP members it is 36 consecutive months. The system also provides health, dental and vision insurance coverage for retirees. MIP members receive a fixed 3% annual increase of the initial benefit. Basic members share in investment earnings over 8%.

The employees covered by the plan include: all teaching and non-teaching employees, employees paid from federal funds, students working summer months but not attending classes, and students working in a school other than the one they are enrolled in and attending classes.

During the year ended June 30, 2008, the School District contributed \$883,411 to the Retirement System, which is 16.73% of current fiscal year covered compensation of \$5,280,343. The rate for the current contract year is 16.72%, which the School District paid on all covered compensation. Employees contributed an additional \$167,240 or 3.87% of eligible wages of \$4,321,442. Total wages of the district totaled \$5,398,742.

The "actuarial accrued liability" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the System's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among retirement plans and employers. The System does not make separate measurements of assets and pension benefits obligation for individual employers. The actuarial accrued liability at September 30, 2006, for the System as a whole, determined through an actuarial valuation performed, as of that date, was \$49.1 billion.

The total pension benefit obligation has increased by \$0.9 billion from September 30, 2005 to September 30, 2006.

The System's net assets available for benefits on that date (valued at market) were \$43.0 billion leaving an unfunded actuarial accrued liability of \$6.1 billion. Ten-year historical trend information is presented in the System's September 30, 2007, comprehensive annual financial report.

NOTE 12 - BUDGETARY ACCOUNTING

During the year ended June 30, 2008, the School incurred expenditures that were in excess of the amounts appropriated as follows:

	Budget	Actual	Excess
General Fund			
Supporting Services	\$ 2,986,865	\$ 3,067,527	\$ 80,662
Food Service Fund			
Supporting Services	507,051	507,217	166
Athletic Fund	217,557	223,155	5,598

NOTE 13 - FUND BALANCE

Components of Fund Balance at June 30, 2008, are as follows:

- A) \$63,868 of fund balance in the General Fund is reserved. This amount represents inventory supplies on hand at year-end and is not available for current appropriations and expenditures.
- B) \$2,841 of fund balance in the Special Revenue Food Service Fund is reserved. This amount represents inventory supplies and USDA commodity inventories on hand at year-end and is not available for current appropriations and expenditures of the Hot Lunch Fund.
- C) A portion of the unreserved fund balance is designated for anticipated major expenses. The Board has elected to set aside monies as follows:

\$ 20,000
13,269
\$ 33,269

D) The balance of the Unreserved Fund Balance is undesignated and is available to fund future School operations. The June 30, 2008, Unreserved General Fund Balance of \$551,620 compares to June 30, 2007, Unreserved General Fund Balance of \$203,517.

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Notes to Financial Statements

NOTE 14 - ADVANCE REFUNDING AND DEFEASANCE OF DEBT

On February 3, 1999, Hesperia Community Schools issued \$6,895,000 in General Obligation Unlimited Tax Refunding Bonds with interest rates of 3.3% to 5.0% to advance refund \$6,580,000 of outstanding 1995 Building and Site Bonds with an average interest rate of 6.6%. The net proceeds were used to purchase U.S. government securities. These securities were deposited in an irrevocable trust with an escrow agent to provide for future debt service payments on the 1995 bonds. As a result, the remaining balance on the 1995 bonds is considered to be defeased. The liability for those bonds has been removed from the financial statements.

NOTE 15 - DEFERRED REVENUE

Components of deferred revenue (cash received for future program expenditures) include the following:

Program

23,096
4,092
46,332
366,573

NOTE 16 - SUBSEQUENT EVENT

On September 30, 2008, there will be an election for the purpose of passing a bond issue of approximately \$17 million for building improvements and expansion.



Budgetary Comparison Schedule

GENERAL FUND

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 806,921	\$ 1,049,129	\$ 1,176,767	\$ 127,638
State Sources	7,380,547	8,127,387	8,129,916	2,529
Federal Sources	204,063	745,678	637,527	-108,151
Miscellaneous	80,808			
TOTAL REVENUE	8,472,339	9,922,194	9,944,210	22,016
EXPENDITURES				
Current				
Instruction				
Basic Programs	4,260,316	4,784,555	4,708,218	76,337
Added Needs	907,550	1,434,604	1,383,627	50,977
Adult/Continuing Education	107,437	95,856	87,168	8,688
Supporting Services				
Pupil	202,471	343,724	337,546	6,178
Instructional Staff	184,927	245,315	203,361	41,954
Administration	502,840	471,170	465,883	5,287
Business Services	332,851	344,053	334,015	10,038
Operations	791,349	865,632	874,389	-8,757
Transportation	548,483	566,443	564,372	2,071
Information Management	146,889	150,528	287,961	-137,433
Community Services	6,311	88,616	71,825	16,791
Debt Service	65,831	67,142	67,141	1
Capital Outlay				
Other Uses - Operating Transfers	199,504	230,210	201,275	28,935
TOTAL EXPENDITURES	8,256,759	9,687,848	9,586,781	101,067
EXCESS OF REVENUE OVER				
EXPENDITURES AND OTHER USES	215,580	234,346	357,429	123,083
DUDGETA DV FUND DATANCE				
BUDGETARY FUND BALANCE -	201 229	201 220	201 229	
JULY 1, 2007	291,328	291,328	291,328	
BUDGETARY FUND BALANCE -				
JUNE 30, 2008	\$ 506,908	\$ 525,674	\$ 648,757	\$ 123,083

FOOD SERVICE

YEAR ENDED JUNE 30, 2008

	Budgeted Amounts		Actual	Variance
	Original	Final	(Budgetary Basis)	
REVENUE				
Local Sources	\$ 146,720	\$ 146,720	\$ 152,283	\$ 5,563
State Sources	31,005	31,005	30,107	-898
Federal Sources	290,974	328,538	319,885	-8,653
Miscellaneous				
TOTAL REVENUE	468,699	506,263	502,275	-3,988
EXPENDITURES				
Current				
Instruction				
Basic Programs				
Added Needs				
Adult/Continuing Education				
Supporting Services	460 497	507.051	507.217	166
Pupil Instructional Staff	469,487	507,051	507,217	-166
Administration				
Business Services				
Operations				
Transportation				
Information Management				
Community Services				
Debt Service				
Capital Outlay	12,000	12,000	11,498	502
Other Uses - Operating Transfers				
TOTAL EXPENDITURES	481,487	519,051	518,715	336
EXCESS OF REVENUE OVER <i><under< i="">> EXPENDITURES AND OTHER USES</under<></i>	-12,788	-12,788	-16,440	-3,652
BUDGETARY FUND BALANCE - JULY 1, 2007	49,350	56,501	65,964	9,463
BUDGETARY FUND BALANCE -				
JUNE 30, 2008	\$ 36,562	\$ 43,713	\$ 49,524	\$ 5,811

OTHER SUPPLEMENTAL INFORMATION

GENERAL FUND

General Fund

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

REVENUE	Budget Actual		Favorable < <i>Unfavorable</i> >
LOCAL SOURCES			
Current Property Tax Levy Interest and Penalties - Delinquent Taxes Tuition, Patrons Sale of School Property	\$ 784,881 	\$ 788,794 223 	\$ 3,913 223
Contributions from Private Sources Interest Earned Community Service Transportation Reimbursements	132,776 17,000 7,000 6,500 76,322	86,444 23,202 4,829 9,936 213,585	-46,332 6,202 -2,171 3,436 137,263
Other	24,650	49,754	25,104
TOTAL REVENUE FROM LOCAL SOURCES	1,049,129	1,176,767	127,638
STATE SOURCES			
Non Plaintiff Durant Settlement State Aid Special Education Adult Education Middle School Math and Science	12,917 7,257,009 283,961 237,734 13,570	12,917 7,257,009 283,962 263,357 13,570	1 25,623
Court Placed At Risk Vocational Education	65 322,131 	65 299,036 	 -23,095
TOTAL REVENUE FROM STATE SOURCES	\$ 8,127,387	\$ 8,129,916	\$ 2,529

	Budget	Actual	Favorable <i><unfavorable></unfavorable></i>
FEDERAL SOURCES			
Title I Title IIA - Teacher Training and Recruiting Title IID - Technology Literacy Challenge Title V Title VI	\$ 411,275 80,608 3,429 2,488 53,578	\$ 368,100 58,218 3,429 2,488 24,966	\$ -43,175 -22,390 -28,612
Adult Basic Education IDEA ESL Literacy School-wide Planning Grant Schools and Roads	47,000 125,000 16,900 5,400	47,000 125,000 3,000 5,326	 -16,900 3,000 -74
TOTAL REVENUE FROM FEDERAL SOURCES	745,678	637,527	-108,151
TOTAL REVENUE AND INCOMING TRANSFERS	\$ 9,922,194	\$ 9,944,210	\$ 22,016
EXPENDITURES			
Instruction			
BASIC PROGRAMS			
Elementary School Middle School High School	\$ 1,746,921 1,464,084 1,573,550	\$ 1,701,938 1,427,791 1,578,489	\$ 44,983 36,293 -4,939
TOTAL BASIC PROGRAMS	4,784,555	4,708,218	76,337
ADDED NEEDS			
Special Education Compensatory Education	866,527 568,077	861,530 522,097	4,997 45,980
TOTAL ADDED NEEDS	1,434,604	1,383,627	50,977
ADULT/CONTINUING EDUCATION			
Adult Basic Education High School Completion	80,712 15,144	71,293 15,875	9,419 - <i>731</i>
TOTAL ADULT/CONTINUING EDUCATION	95,856	87,168	8,688
Total Instruction	\$ 6,315,015	\$ 6,179,013	\$ 136,002

General Fund

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Budget	Favorable < <u>Unfavorable</u> >		
EXPENDITURES (CONTINUED)				
Supportive Services				
PUPIL				
Guidance	\$ 215,338	\$ 206,023	\$ 9,315	
Health Services	33,861	33,511	350	
Social Work Services	94,525	98,012	-3,487	
TOTAL PUPIL	343,724	337,546	6,178	
INSTRUCTIONAL STAFF				
Improvement of Instruction	60,944	39,275	21,669	
Educational Media Services	5,480	5,302	178	
Supervision and Direction of Instruction	178,891	158,784	20,107	
TOTAL INSTRUCTIONAL STAFF	245,315	203,361	41,954	
ADMINISTRATION				
Board of Education	32,840	28,406	4,434	
Executive Administration	151,383	150,610	773	
Principals Offices	283,287	283,288	-1	
Other School Administration	3,660	3,579	81	
TOTAL ADMINISTRATION	471,170	465,883	5,287	
BUSINESS SERVICES				
Fiscal Services	185,482	183,607	1,875	
Internal Services	2,000	1,673	327	
Other Business Services	150,302	142,700	7,602	
Operating Building Services	865,632	874,389	-8,757	
Security Services	250	201	49	
Pupil Transportation Services	566,443	564,372	2,071	
Staff/Personnel Services	6,019	5,834	185	
Information Management Services	150,528	287,961	-137,433	
TOTAL BUSINESS SERVICES	1,926,656	2,060,737	-134,081	
Total Supportive Services	\$ 2,986,865	\$ 3,067,527	\$ -80,662	

	Budget	Actual	Favorable <i><unfavorable></unfavorable></i>
EXPENDITURES (CONTINUED)			
Community Services			
Community Recreation Custody and Care of Children Other Community Services	\$ 37,363 51,253	*	\$ 16,564 227
Total Community Services	88,616	71,825	16,791
Debt Service			
Durant Loan Bus Loans Other Loans	12,647 48,411 6,084	12,647 48,411 6,083	 1
Total Debt Service	67,142	67,141	1
TOTAL EXPENDITURES	\$ 9,457,638	\$ 9,385,506	\$ 72,132
EXCESS REVENUE OVER EXPENDITURES	464,556	558,704	94,148
OTHER FINANCING SOURCES < USES>			
Loan Proceeds Operating Transfers In			
Operating Transfers III Operating Transfers <i>Out></i>	-230,210	-201,275	28,935
TOTAL OTHER FINANCING SOURCES <uses></uses>	-230,210	-201,275	28,935
EXCESS REVENUE AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER USES	\$ 234,346	357,429	\$ 123,083
FUND BALANCE - JULY 1, 2007		291,328	-
FUND BALANCE - JUNE 30, 2008		\$ 648,757	<u> </u>

SPECIAL REVENUE FUNDS

Special Revenue Funds

COMBINING BALANCE SHEET

JUNE 30, 2008

ASSETS	Food Service Fund	Athletic Fund	Totals
Cash In Bank Due From Other Governmental Units Due From Other Funds Prepaid Expenses Inventory	\$ 6,098 17,032 26,648 2,841	\$ 	\$ 6,098 17,032 26,648 2,841
TOTAL ASSETS	\$ 52,619	\$	\$ 52,619
LIABILITIES AND FUND EQUITY LIABILITIES Due to Other Funds Accounts Payable Accrued Salaries	\$ 3,095	\$ 	\$ 3,095
Accrued Expenses			
TOTAL LIABILITIES	3,095		3,095
FUND EQUITY Fund Balance - Reserved for Inventory Fund Balance - Unreserved TOTAL FUND EQUITY	2,841 46,683 49,524	 	2,841 46,683 49,524
TOTAL LIABILITIES AND FUND EQUITY	\$ 52,619	\$	\$ 52,619

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30. 2008

	Food Service					
	Favorable					
	Budget	Actual	<unfavorable></unfavorable>			
REVENUE						
Food Services						
Hot Lunch Receipts - Students	\$ 57,600	\$ 55,917	\$ <i>-1,683</i>			
- Adults	2,720	4,290	1,570			
- Ala Carte	45,600	38,584	-7,016			
- Breakfast	5,100	4,613	-487			
State Aid	31,005	30,107	-898			
Federal Aid	303,873	295,818	-8,055			
Federal USDA Commodities in Kind	24,665	24,067	-598			
Other Income	35,100	48,451	13,351			
Interest Income	600	428	-172			
Athletic Activities						
Admission to Games						
TOTAL REVENUE	506,263	502,275	-3,988			
EXPENDITURES						
Salaries	146,440	146,140	300			
Fringe Benefits	79,935	87,699	-7,764			
Professional Services	31,451	33,590	-2,139			
Food and Supplies	225,719	220,409	5,310			
Travel and Conferences	500	282	218			
Contracted Coaches						
Miscellaneous	7,306	5,801	1,505			
Telephone	700	486	214			
Postage	1,500	554	946			
Repairs	2,500	922	1,578			
Utilities and Waste	11,000	11,334	-334			
Capital Outlay	12,000	11,498	502			
TOTAL EXPENDITURES	\$ 519,051 \$ 518,715 \$ 336					

	Athletic Act	ivities	Totals (Memo Only)			
		Favorable			Favorable	
Budget	Actual	<unfavorable></unfavorable>	Budget	Budget Actual		
		•	-		< <u>Unfavorable></u>	
\$	\$	\$	\$ 57,600	\$ 55,917	\$ -1,683	
Ψ	Ψ	Ψ 	2,720	4,290	1,570	
			45,600	38,584	-7,016	
			5,100	4,613	-487	
			31,005	30,107	-898	
			303,873	295,818	-8, <i>055</i>	
			24,665	24,067	-598	
			•			
			35,100	48,451	13,351	
			600	428	-172	
21,880	21,880		21,880	21,880		
					2 000	
21,880	21,880		528,143	524,155	-3,988	
83,065	83,067	-2	229,505	229,207	298	
22,315	22,760	-445	102,250	110,459	-8,209	
16,050	15,113	937	47,501	· · · · · · · · · · · · · · · · · · ·		
5,432	7,508	-2,076	231,151	227,917	-1,202 3,234	
26,148	13,741	12,407	26,648	14,023	12,625	
44,026	53,085	-9,059	44,026	53,085	-9,059	
12,894	20,257	-9,039 -7,363	20,200	26,058	-5,858	
14,074	40,437	-7,303	700	20,038 486	-5,656 214	
				554	946	
2.019	2.017	1	1,500			
2,018	2,017	1	4,518	2,939	1,579	
			11,000	11,334	-334	
5,609	5,607	2	17,609	17,105	504	
\$ 217,557	\$ 223,155	\$ -5,598	\$ 736,608	\$ 741,870	\$ -5,262	

Special Revenue Funds

COMBINING STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Food Service					
	Budget	Favorable < <u>Unfavorable</u> >				
EXCESS REVENUE OVER < UNDER > EXPENDITURES	\$ -12,788	\$ -16,440	\$ -3,652			
OTHER FINANCING SOURCES < USES>						
Operating Transfers In Operating Transfers Out						
TOTAL OTHER FINANCING SOURCES < USES>						
EXCESS REVENUE AND OTHER SOURCES OVER <under> EXPENDITURES AND OTHER USES</under>	\$ -12,788	-16,440	\$ -3,652			
FUND BALANCE - BEGINNING OF YEAR		65,964	-			
FUND BALANCE - END OF YEAR	-	\$ 49,524	<u>-</u>			

	Athletic Activit	ies	Totals (Memo Only)				
Budget	Actual	Favorable < <i>Unfavorable</i> >	Budget	Actual	Favorable < <u>Unfavorable</u> >		
\$ -195,677	\$ -201,275	\$ -5,598	\$ -208,465	\$ -217,715	\$ -9,250		
195,677	201,275	5,598	195,677	201,275	5,598		
195,677	201,275	5,598	195,677	201,275	5,598		
<u> </u>	 :	<u> </u>	\$ -12,788	-16,440	\$ -3,652		
		-		65,964	-		
	\$	_		\$ 49,524	_		

DEBT RETIREMENT FUNDS

Debt Retirement Funds

COMBINING BALANCE SHEET

JUNE 30, 2008

	19	95 Debt	1999 Debt	Durant	Totals
ASSETS					
Cash in Bank Due from other Funds	\$	1,087	\$ 142,111 	\$ 	\$ 143,198
Due from other Governments Accounts Receivable					
TOTAL ASSETS	\$	1,087	\$ 142,111	\$	\$ 143,198
					_
LIABILITIES AND FUND EQUITY					
LIABILITIES					
Accounts Payable	\$		\$	\$	\$
Due to Other Funds Due to Other Governments			1,287		1,287
TOTAL LIABILITIES			1,287		1,287
FUND EQUITY					
Fund Balance		1,087	140,824		141,911
TOTAL LIABILITIES AND FUND EQUITY	\$	1,087	\$ 142,111	\$	\$ 143,198

Debt Retirement Funds

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

FISCAL YEAR ENDED JUNE 30, 2008

	Durant						1995					
	D.,	J4				orable	D.,	J 4				orable
REVENUE	Bu	dget	A	ctual	<u> </u>	vorable>	Bu	<u>idget</u>	A	ctual	<u> </u>	vorable>_
Current Taxes Delinquent Taxes Interest and Penalties on	\$		\$		\$		\$		\$		\$	
Delinquent Property Taxes Earned Interest State Aid Revenue						 				43		43
Miscellaneous												
TOTAL REVENUE										43		43
EXPENDITURES												
Principal on Bonds												
Interest on Bonds Principal on School Bond Loan Fund												
Interest on School Bond Loan Fund												
Agent Fees and Other												
TOTAL EXPENDITURES												
EXCESS REVENUE OVER <under> EXPENDITURES</under>										43		43
OTHER FINANCING SOURCES												
Loan Proceeds												
Operating Transfers In Operating Transfers Out												
TOTAL OTHER FINANCING SOURCES												
TOTAL OTHER FINANCING SOURCES												
EXCESS REVENUE AND OTHER SOURCES OVER <i><under< i="">> EXPENDITURES AND OTHER USES</under<></i>	¢				¢		¢			12	¢	43
EM ENDITURES AND OTHER USES	Ψ		=		J		Ψ		Ξ	₩,	\$	T J
FUND BALANCE - BEGINNING OF YEAR					_					1,044	_	
FUND BALANCE - END OF YEAR			\$		=				\$	1,087	=	

Budget Actual <unfavorable> Budget Actual <unfa< th=""> \$ 870,500 \$ 875,738 \$ 5,238 \$ 870,500 \$ 875,738 \$ </unfa<></unfavorable>	orable vorable> 5,238
Budget Actual <unfavorable> Budget Actual <unfa< th=""> \$ 870,500 \$ 875,738 \$ 5,238 \$ 870,500 \$ 875,738 \$ </unfa<></unfavorable>	vorable>_
\$ 870,500 \$ 875,738 \$ 5,238 \$ 870,500 \$ 875,738 \$	
	5,238
	5,238
	5,238
3,600 3,632 32 3,600 3,675	75
	13
874,100 879,370 5,270 874,100 879,413	5,313
300,000 300,000 300,000 300,000	
278,000 277,895 105 278,000 277,895	105
268,473 268,473 268,473 268,473	
61,527 61,527 61,527 61,527	
660 360 300 660 360	300
908,660 908,255 405 908,660 908,255	405
908,660 908,255 405 908,660 908,255	405
<u>-34,560</u> <u>-28,885</u> <u>5,675</u> <u>-34,560</u> <u>-28,842</u>	5,718
\$ -34,560 -28,885 \$ 5,675 \$ -34,560 -28,842 \$	5 718
	J,/10
4.40 = 0.0	
<u>169,709</u> <u>170,753</u>	
<u>169,709</u> <u>170,753</u>	

1999

Totals

AGENCY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2008

Cash in Bank Due From General Fund	\$ 59,751
TOTAL ASSETS	 59,751

ASSETS

LIABILITIESDue to General Fund\$ ---Due to Students Groups59,577Due to Others174

TOTAL LIABILITIES \$ 59,751

COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2008

	Balance 6/30/07	Receipts	Disbursements	Balance 6/30/08
ASSETS				
Cash	\$ 68,828	\$ 163,809	\$ 172,886	\$ 59,751
TOTAL ASSETS	\$ 68,828	\$ 163,809	\$ 172,886	\$ 59,751
LIABILITIES				
Due to General Fund	\$ 923	\$	\$ 923	\$
Due to Others				
Community Education	3,695	1,298	4,819	174
Student Groups				
High School Internal	2,684	10,096	7,617	5,163
Middle School Internal	4,061	1,540	1,302	4,299
Elementary Internal	2,088	3,451	4,139	1,400
Central Office Internal	55,377	147,424	154,086	48,715
Total Student Groups	64,210	162,511	167,144	59,577
TOTAL LIABILITIES	\$ 68,828	\$ 163,809	\$ 172,886	\$ 59,751

Agency Funds

STATEMENT OF CHANGES IN ASSETS AND LIABILITIES

FISCAL YEAR ENDED JUNE 30, 2008

	Balance 6/30/07	Receipts	Disbursements	Balance 6/30/08
ACTIVITY		•		
Elementary				
Elementary Art Mural Elementary Library Fund Elementary Playground Elementary School Store Elementary Student Council	\$ 207 431 268 187 30	\$ 41 294	\$ 382 	\$ 207 472 268 99 30
Elementary Yearbook Boys Youth Basketball Girls Youth Basketball	223 38 4	 	 	223 38 4
Middle School				
School Store - 5 th Grade Student Council - 5th and 6th Student Council - 7 th and 8th 8 th Grade Reserve 7 th Grade Reserve	203 721 394	2,719 2,168 26 2,475 1,085	2,104 2,245 98 1,829	615 126 649 1,040 1,085
6 th Grade Reserve Amusement Park Physics M.S. Combined Fund Raising M.S. Rocketry Club M.S. School Store	1,036 554 988 689 51	2,492 353 676	1,556 560 988 1,125 51	1,972 347 240
M.S. Track & Field M.S. Wrestling Extended Day Program Class of 2012 Class of 2013	28 53 26 572 508	30 5,702 5,688	30 6,259 5,436	28 53 26 15 760
Class of 2014 Class of 2015	233	11,586 455	11,412 455	407
High School				
Band Art - High School Choir Color Guard Drama	4,710 322 143 743 884	19,501 1,271 233 10	17,027 1,202 493 351	7,184 391 143 483 543
Forensics H.S. Library H.S. Pride H.S. Scholarship Fund H.S. Student Council	863 84 63 500 3,161	 1,500 1,595	46 1,250 1,642	863 84 17 750 3,114

Industrial Arts Journalism National Honor Society Panther Yearbook Ski Club	\$ 806 128 597 1,205 461	678	\$ 1,425 352 9,879	\$ 731 128 923 293 461
Spanish Club Wild Joe Cappuccino Store Class of 2007 Class of 2008 Class of 2009	719 301 615 1,547 3,271	218 138 2,288	937 93 615 861 3,962	208 824 1,597
Class of 2010 Class of 2011	854 175		28	1,774 677
High School Athletics				
Baseball Club Boys Basketball Cheerleaders Cross Country Football Club	98 45 46 312 9,455	200 969	14,602 91 9,385 14,166	2,278 154 1,015 26 1,546
Girls Softball Girls Varsity Basketball Golf Team H.S. Boys Track H.S. Girls Track	3,602 2,301 316 685	7,288	75 2,716 7,530 1,845	125 1,086 2,059 516 935
Varsity Club Varsity Wrestling Volleyball Club	1,700 185 3,272	17,192	3,138 16,811 7,433	1,111 566 1,812
Community Education				
Community Ed. Art Club C.E. Tumbling C.E. Youth Basketball Experiential Education Hesperia Alternative Ed	47 45 197	 172 731 	18 123 711 120	29 49 20 45 77
7 th and 8 th Grade Rocket Football Panther Cub/Club Day Care Youth Ed-Ventures Fifty Plus Club Mug Partnership Program	249 41 15 310	 799	2,319 389 149	577 249 41 425 161
Interest Earned Elementary Checking Community Ed. Checking High School Checking Middle School Checking	3,783 2,088 3,695 2,684 4,061	1,298 10,096 1,540	-1,305 4,139 4,819 7,617 1,302	3,921 1,400 174 5,163 4,299
TOTALS	\$ 68,828	\$ 163,809	\$ 172,886	\$ 59,751

STATEMENTS OF BONDED INDEBTEDNESS

Statement Of Bonded Indebtedness

DURANT DEBT

YEAR ENDED JUNE 30, 2008

Durant Issue Dated November 28, 1998 in the amount of	\$ 129,170
Less: Bonds paid in prior years Bonds due and paid May 1, 2008	76,229
Balance outstanding - June 30, 2008	\$ 52,941

Balance payable as follows:

Year	Rate	Iı	nterest	P	rincipal]	<u> Fotal</u>
Prior	4.761%	\$	4,730	\$	13,410	\$	
2009	4.761%	Ψ	1,882	4	7,189	4	9,071
2010	4.761%		1,540		7,531		9,071
2011	4.761%		1,182		7,889		9,071
2012	4.761%		806		8,264		9,070
2013	4.761%		412		8,658		27,210
		\$	10,552	\$	52,941	\$	63,493

Statement Of Bonded Indebtedness

1999 **DEBT**

YEAR ENDED JUNE 30, 2008

Issue Dated February 3, 1999 in the amount of	\$ 6,895,000
Less:	
Bonds paid in prior years	985,000
Bonds due and paid May 1, 2008	300,000
Balance outstanding - June 30, 2008	\$ 5,610,000

Balance payable as follows:

Year	Rate	Interest	Interest Principal	
2009	4.30%	\$ 258,850	\$ 315,000	\$ 573,850
2010	4.40%	244,708	335,000	579,708
2011	4.45%	229,661	345,000	574,661
2012	4.50%	214,222	345,000	559,222
2013	4.55%	198,725	340,000	538,725
2014	4.60%	183,170	340,000	523,170
2015	4.65%	167,561	335,000	502,561
2016	4.70%	151,900	335,000	486,900
2017	4.75%	136,190	330,000	466,190
2018	4.80%	120,433	330,000	450,433
2019	4.85%	104,631	325,000	429,631
2020	5.00%	88,625	325,000	413,625
2021	5.00%	72,500	320,000	392,500
2022	5.00%	56,375	325,000	381,375
2023 2024 2025	5.00% 5.00% 5.00% _	40,125 24,000 8,000 \$ 2,299,676	325,000 320,000 320,000 \$ 5,610,000	365,125 344,000 328,000 \$7,909,676

FEDERAL FINANCIAL ASSISTANCE

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

Program Title	Federal CFDA Number	Contract Number	Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Pass Through Michigan Department of Education: - Title I Carry-over - Title I - Title I School-wide Planning	*84.010 *84.010 *84.010	815300708 715300607 715200708	\$ 388,502 297,729 3,000
- Title V Innovative Programs	84.298	802500708	2,488
Adult Basic EducationAdult Basic EducationAdult Basic EducationAdult Basic Education	84.002 84.002 84.002 84.002	81130810567 811208500177 711207500177 71130710567	47,000 16,900 16,900 48,200
- Title VI Rural and Low-Income Grant- Title VI Rural and Low-Income Grant	84.358B 84.358B	806600708 706600607	34,217 16,125
Title IIA Teacher Training and RecruitingTitle IIA Teacher Training and Recruiting	84.367 84.367	805200708 705200607	80,608 80,206
- Title IID Enhancing Education through Technology Pass Through Newago County RESA	84.318	842900708	3,429
- IDEA	84.027		125,000

TOTAL U.S. DEPARTMENT OF EDUCATION

^{*} Designates a major program.

Prior Year Expenditure	Cash/Accrued or < <i>Deferred></i> Revenue at July 1, 2007	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <i><deferred></deferred></i> Revenue at June 30, 2008
\$	\$	\$ 357,778	\$ 368,100	\$ 10,322
281,763	41,382	41,382		
		1,500	3,000	1,500
281,763	41,382	400,660	371,100	11,822
		2,488	2,488	
		42,942	47,000	4,058
16,900	5,549	5,549		
48,200	12,256	12,256		
65,100	17,805	60,747	47,000	4,058
		24,774	24,966	192
10,247	18	18		
10,247	18	24,792	24,966	192
		58,218	58,218	
80,206	12,025	12,075		
80,206	12,025	70,243	58,218	
		3,429	3,429	
		125,000	125,000	
	\$ 71,230	\$ 687,359	\$ 632,201	\$ 16,072

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FISCAL YEAR ENDED JUNE 30, 2008

D.,		Contract Number	•
Program Title	Number		Amount
U.S. DEPARTMENT OF AGRICULTURE			
Pass Through Oceana County			
- Schools and Roads	10.665		\$ 5,326
U.S.D.A. Food Distribution:			
- Entitlement Commodities	10.550	Various	25,905
- Bonus Commodities	10.550	Various	35
Pass Through State Department of Education:			
- National School Lunch Program	10.555	81950,81960	
		71950,71960	199,867
- Special Breakfast	10.553	81970,71970	63,115
- Fresh Fruit and Vegetable Program	10.582	80950	37,564

TOTAL U.S. DEPARTMENT OF AGRICULTURE

TOTAL FEDERAL FINANCIAL ASSISTANCE

Prior Year Expenditure	Cash/Accrued or <i><deferred></deferred></i> Revenue at July 1, 2007	Receipts or Revenue Recognized	Disbursements/ Expenditures	Cash/Accrued or <i><deferred></deferred></i> Revenue at June 30, 2008
\$	\$	\$ 5,326	\$ 5,326	\$
	 	24,032 35 24,067	24,032 35 24,067	
		199,867	199,867	
		63,115 15,804	63,115 32,836	17,032
		308,179	325,211	17,032
	\$ 71,230	\$ 995,538	\$ 957,412	\$ 33,104

FOOTNOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

JUNE 30, 2008

NOTE 1 - MAJOR PROGRAMS

The School has one major program - Title I. Total expenditures during the year ended June 30, 2008 were \$371,100.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The Schedule of Federal Awards was prepared using the modified accrual basis of accounting. For grants from the Departments of Education and Agriculture, revenue is recognized when the related expense is incurred. Amounts spent but not yet received at June 30, 2008 were recorded as accrued revenue. Expenditures are recorded when the expense is incurred. Amounts received but not spent by June 30, 2008 are recorded as deferred revenue.

NOTE 3 - ANNUAL GRANT REPORTS

For the grants from the Departments of Education and Agriculture, management has reported the expenditures in the Schedule of Expenditures of Federal Awards equal to those amounts reported in the annual or final cost reports.

NOTE 4 - SCHEDULE PREPARATION

Management has utilized the Grants Section Audit Report (form R7120) in preparing the Schedule of Expenditures of Federal Awards.

NOTE 5 - INVENTORY VALUES

Inventory values are based on the USDA value for donated food commodities. Reported commodity receipts values were computed using the Recipient Entitlement Balance Report and other district records. Spoilage or pilferage, if any is included in expenditures.

SCHEDULE OF RECONCILIATION OF REVENUE WITH EXPENDITURES FOR FEDERAL FINANCIAL ASSISTANCE PROGRAMS

YEAR ENDED JUNE 30, 2008

	Financial Statement	Awards Schedule
DEPARTMENT OF EDUCATION GRANTS		
GENERAL FUND		
Title I	\$ 371,100	\$ 371,100
IDEA	125,000	125,000
Title V	2,488	2,488
Adult Basic Education	47,000	47,000
Title VI	24,966	24,966
Teacher Training and Recruiting	58,218	58,218
Technology Literacy Challenge	3,429	3,429
TOTAL	632,201	632,201
DEPARTMENT OF AGRICULTURE GRANTS		
SCHOOL LUNCH FUND		
Fresh Fruit and Vegetable	32,836	32,836
Commodities	24,067	24,067
Federal Aid	262,982	262,982
SUB-TOTAL	319,885	319,885
GENERAL FUND		
Schools and Roads	5,326	5,326
TOTAL	325,211	325,211
GRAND TOTAL	\$ 957,412	\$ 957,412

Karl L. Drake, P.C. Certified Public Accountant

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education Hesperia Community Schools Hesperia, Michigan 49421

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Hesperia Community Schools, as of and for the year ended June 30, 2008, which collectively comprise Hesperia Community School's basic financial statements, and have issued our report thereon dated August 21, 2008. We conducted our audit in accordance with United States generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hesperia Community School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hesperia Community School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Hesperia Community School's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Hesperia Community School's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Hesperia Community School's financial statements that is more than inconsequential will not be prevented or detected by Hesperia Community School's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Hesperia Community School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance

As part of obtaining reasonable assurance about whether Hesperia Community School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Karl L. Drake, PC

Certified Public Accountant

Karl Z Denle

August 21, 2008

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education Hesperia Community Schools Hesperia, Michigan 49421

Compliance

We have audited the compliance of Hesperia Community Schools with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. Hesperia Community School's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major federal programs is the responsibility of Hesperia Community School's management. Our responsibility is to express an opinion on Hesperia Community School's compliance based on our audit.

We conducted our audit of compliance in accordance with United States generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States*, *Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Hesperia Community School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Hesperia Community School's compliance with these requirements.

In our opinion, Hesperia Community School complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Hesperia Community School is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Hesperia Community School's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hesperia Community School's internal control over compliance.

Our consideration of the internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the entity's internal control that might be significant deficiencies or material weaknesses as defined below.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, which results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended for the information of the Board of Education, management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Karl L. Drake, PC

Certified Public Accountant

Karl Z Denle

August 21, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

FISCAL YEAR ENDED JUNE 30, 2008

Summary of Auditor's Results

- 1. The auditor issued an unqualified report on the financial statements of Hesperia Community Schools.
- 2. The audit disclosed no noncompliance that is material to the financial statements of Hesperia Community Schools.
- 3. The auditor issued an unqualified opinion on compliance for major programs.
- 4. The audit disclosed no audit findings that are required to be reported under Section 510(a).
- 5. Hesperia Community Schools had one major program Title I.
- 6. The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- 7. Hesperia Community Schools qualified as a low risk auditee under Section 530.

Findings Related to the Financial Statement

NONE

Findings and Questioned Costs for Federal Awards

NONE

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

JUNE 30. 2008

There were no prior audit findings.

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August 21, 2008

Board of Education Hesperia Community Schools Hesperia, Michigan 49421

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Hesperia Community Schools for the year ended June 30, 2008, and have issued our report thereon dated August 21, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated January 11, 2008, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing previously communicated to you in our engagement letter dated January 11, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Hesperia Community Schools are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during this fiscal year. We noted no transactions entered into by the governmental unit, during the year, for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future

events affecting them may differ significantly from those expected. The most sensitive estimate affecting the financial statements was:

Management's estimate of the depreciation is based on useful life of the assets. We evaluated the key factors and assumptions used to develop the estimate, in determining that it is reasonable, in relation to the financial statements taken as a whole.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

the disclosure of long-term debt in Note 10 to the financial statements.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Some of the misstatements detected as a result of audit procedures, and corrected by management, were material, either individually or in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, which could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 21, 2008.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the governmental unit's auditors. The primary discussions held this year revolved around the segregation of responsibilities in the School District office. These discussions occurred in the normal course of our professional relationship, however, and our responses were not a condition to our retention.

We would like to take this opportunity to discuss various comments and recommendations related to this year's audit.

- The Department of Education is scrutinizing the area of budgeting more closely. For years, they have monitored the expenditures for overspending. Now they are much more closely monitoring the revenue and fund balance aspects of budgeting as well. This year the District had expenditures in excess of amounts budgeted in a few budget categories. Greater care needs to be taken to amend the budget when necessary to prevent expenditure overages.
- During this past fiscal year, the federal grants that are billed through the State of Michigan were invoiced infrequently. This revenue source totals over \$600,000, and can be invoiced as frequently as desired. The billings are based on the monies that have previously been expended for federal grant programs. By invoicing monthly or bi-monthly, the cash flow position of the District would be improved, limiting the amount of borrowing currently necessary for cash flow.
- Over four years ago, the final payment on the 1995 Debt Obligation was made. At the time of the audit, the 1995 Debt Service bank account continued to maintain a balance. This account should be closed, and the balance transferred to the 1999 Debt Service account.
- When performing preliminary audit work, it became clear that bank account reconciliations had not been prepared on several of the accounts for several months. This is an important internal control procedure that should not be put off. When bank accounts are not reconciled, errors can occur or items can be omitted, making the financial information inaccurate. At the time of the audit, all accounts were reconciled, and brought up-to-date.
- At the time of the audit, the District had a large amount of money in the bank that exceeded FDIC insurance limits. In these challenging financial times, the placement of District cash resources should be reviewed, and the District's exposure to local bank challenges should be reduced when possible. We recommend that the District spread their cash accounts to several different banks to minimize exposure.

This information is intended solely for the use of Hesperia Community Schools, management of Hesperia Community Schools and the Michigan Department of Education, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Karl L. Drake, P.C.

Karl Z Denle